



Remarks For

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Administrator
U.S. Small Business Administration

Delivered At The

**FINANCIAL INSTITUTIONS FOR PRIVATE ENTERPRISE
DEVELOPMENT**

HARVARD KENNEDY SCHOOL OF GOVERNMENT

Boston, MA

August 22, 2007
12:00 pm

Thank you for that very kind introduction. It's wonderful to be with you today, and very exciting to be with such an array of international development finance executives. This course is giving you important tools to help private institutions reach further with their capital to support both private and public aims. It's a noble undertaking, and I commend you for your commitment to business development in some of the world's most needy settings. The impact you can have there is just tremendous.

My agency, the Small Business Administration, while a part of the federal government, shares many of your goals. While we are not a profit-making institution, we have to be good stewards of the public's trust and our taxpayers' funds just as you are accountable to corporate boards and shareholders, or other public oversight. So we have fiscal responsibility square in our sights in everything we do, as do you. Our mission is to assist entrepreneurs in reaching for their dreams, which as you know and have experienced, has the power to transform lives, the well-being of families, and can strengthen communities, and in America's case, drive our economy.

Small businesses are hugely important to America's economic strength and competitiveness. Small firms are responsible for 60 to 80 percent of all new jobs in the U.S. — we have seen almost 8.5 million new jobs created in the past four years—more than the other industrialized nations combined.

SBA was there to help many of America's best known corporate icons get their starts. Names like Intel, AOL, Outback Steakhouse, Apple, Amgen, Ben & Jerry's, Callaway Golf, Staples, NIKE and FedEx.

Our position in the federal government, and in the entrepreneurial world, is a unique one. Much of what we do expands on the good work of the private sector to maximize the impact for small businesses. I think our position allows us to play a unique and critical role in entrepreneurial development and support in America's prosperity.

I'd like to take you through some of our programs to show you that-- what we do -- how we do it -- and what needs we're meeting which expand beyond the reach of the private sector.

I'll start with our loan programs, which is one of the biggest aspects of SBA's work. As this group is especially aware, capital is the lifeblood of any business, but especially small businesses. It's required to do any number of things -- from funding start-ups, to supporting ongoing working capital needs, to purchasing machinery and equipment, and buying land or renovating buildings.

In these loan programs, the SBA isn't actually making the loan. Private lending institutions -- credit unions, banks, Community Development

Companies, and others – make the actual loans. We provide credit enhancement in the form of a government-backed guarantee to the lender, so that they're able to reach further and make loans they otherwise wouldn't because of the risk. Depending on the program and loan amount, we offer guarantees up to 85 percent, on loans up to \$2 million.

We have two main lending programs to get capital into the hands of small businesses. Our primary loan program, called the 7(a) program, offers borrowers a great deal of flexibility in loan structure, use of the proceeds and availability. It also has very broad eligibility requirements. These loans can be used to buy equipment and supplies, land, and buildings, among other things.

Our other major loan product, the 504 program, requires partnership with local community development organizations. This loan program also has wide eligibility, and loan amounts, again depending on terms and the borrower's industry, can be up to \$4 million. These loans provide small businesses with long-term, fixed rate, subordinate mortgage financing to purchase or renovate land, buildings or equipment.

We've worked very hard to expand the reach of these loans, and those efforts are paying off. Since 2002, we've seen a doubling of our loan volume, to over 100,000 loans funded.

And we recently created a new loan product for America's veterans and military community. With military activations and extensions having a profound impact on entrepreneurs in this community, SBA is committed to helping America's service men and women who wish to start and grow businesses. This new loan product, called Patriot Express, features streamlined processing and enhanced interest rate and guarantee characteristics.

I want to point out that in all of these programs, the interest rates are determined by the lending institutions, and they profit – because of course, they won't work with us if it doesn't make financial sense for them. But they're also set so we're not saddling the borrower with such high rates that it's an undue burden to repay.

I've alluded to our network of lending institutions, and they are absolutely critical to our success. We guarantee, but do not make, traditional small business loans. That means that we rely on this network to actually reach our customers. They've got the local relationships, the local knowledge of small business. We can't get to our customers without them.

Our customers are better served by our partnerships with the lenders in their communities than by having to work directly with the federal government bureaucracy.

I often say, we are a field organization – it's out in the field, in communities, through our partners, where we make a difference. And with our field organization, and lending relationships, we can merge the benefits of economies of scale with this local knowledge, to maximize our impact across a huge geography. Using local lenders also provides a significant benefit to our customers. The small business is able to develop lasting banking relationships with the local lending community – and use these relationships to get conventional financing when the business no longer needs federal credit enhancement.

So, in our lending programs, that's what we do and how we do it. And I think we fill a crucial role that's not filled elsewhere. Through these programs, we're able to get capital into the hands of people who otherwise wouldn't be able to get it. Our programs allow banks to extend money to people who don't have sufficient collateral to get the loans themselves, who also often have lower credit scores or mixed credit histories. These especially include getting capital into disadvantaged and underserved markets, which are often minorities and individuals in inner cities and rural parts of America.

SBA also provides capital to investment companies to fill the gap between the availability of venture capital and the needs of small businesses in start-up and growth situations. Licensed and regulated by the SBA, our Small Business Investment Company (SBIC) program includes privately

owned and managed companies that make funds available to small businesses. These companies use funds raised from private investors, plus funds obtained at favorable rates with SBA guarantees, to invest in small businesses. The outstanding leverage and commitments in this program currently total about \$10.4 billion.

Now, as important as we all know capital is to entrepreneurs, it's just as important that they're prepared for the difficulties and challenges that go along with those dreams of owning a small business. So often, an aspiring entrepreneur knows the technical aspects of their business really well, but isn't well-prepared for the operational and strategic aspects of it. As a small business owner, you have to be the company's head of sales, head of operations, and marketer, in addition to being the CEO.

This is where our technical assistance programs, and partners, come in. We provide and support entrepreneurial education in a variety of ways, both through our direct programs and through our network of independent resource partners, which receive part of their funding from SBA.

Just as we work through a network of lending institutions in our loan programs, we also have a large network of partners in education and technical assistance. Last year, approximately 1.42 million entrepreneurs

received business counseling and technical assistance through one or more of the agency's advisory and training programs.

These programs serve a wide range of customers, helping small businesses with technical matters, like feasibility, marketing and production studies; providing counseling through a network of business executives and retirees who volunteer their time; and offering specialized support to women entrepreneurs, among other efforts.

We have more than 25 classes -- and a wealth of other educational resources and tools -- at our website, sba.gov, and the site is a major way for our customers to interact with us. Each month, we receive one million unique visitors to the site, and last year it received 26 million hits. Classes at sba.gov range from starting a business to identifying your target markets, to creating a strategic plan, and accounting 101.

We also offer counseling and support through our 68 district offices across the United States. Entrepreneurs can walk in, learn more about the SBA, and other resources we can coordinate to support them. For international trade, we have special technical outreach employees located throughout the country, to support small business owners with exporting questions and challenges.

This educational assistance provides an invaluable resource to America's small business owners. Because, remember, the goal here is not just to get money out to small businesses; it's to create a class of entrepreneurs who are comprehensively prepared for the difficulties of owning and running a company. Capital is of course a huge necessity, but business acumen is also important, so those monies are wisely deployed and so that these businesses survive beyond the start-up phase.

In addition, I think our network gives our educational support a key attribute of effectiveness – it's customized to the individual. Many private support services – like online classes from a university or books – are fine, but they are by definition generic, and don't get to the practical challenges this particular owner has. Our resource partners, because they're in the field, face-to-face with men and women starting and running companies, give them personalized, tailored advice, which they can use immediately. That's huge for small business owners.

In some of our loan programs, we require the lender to provide or coordinate educational support for the borrower across some term of the loan period. We really want to do what we can to spread that business acumen, so that people succeed.

Another area where we support small businesses on is federal contracting. The United States government is the largest purchaser of goods and services in the world, and we want small businesses to be fairly treated in that process, and to receive a fair portion of those contract dollars.

We champion small businesses in the federal procurement process in several ways:

- There is a Small Business Vendor database, which allows procurement officials to search for qualified small businesses, and sort by industry codes, location, quality certifications, and by women, minority, and veteran ownership.
- Prime contractors also use a tool called SUB-Net to announce sub-contracting opportunities, which small businesses can search through and bid on.
- We have a special program for socially and economically disadvantaged companies, which provides access to counseling, training workshops and other guidance on doing business with the federal government.
- These firms can also participate in the Mentor-Protégé program, where experienced private-sector companies partner with socially

and economically disadvantaged firms to receive in-depth business advice to assist them in becoming more competitive in the federal procurement environment.

Why does our support of small businesses in government contracting matter? As I mentioned earlier, the U.S. federal government is the largest purchaser of goods and services in the world. That's a huge opportunity, and small business should have the chance to compete for it.

It's not just good for small businesses; it's good for government too. Small businesses, very often, are excellent suppliers, and often even better than large companies. They more nimble and can be more flexible.

However, in competing for federal contracts, small companies can't bring the marketing and sales resources to bear that large companies can. So we have to take steps to ensure they can compete, and while some associations advise small businesses on federal contracting, none of them have the inside- and outside-government networks and resources that the SBA has. Again, our scale brings people to us – disadvantaged firms, veterans firms, and so on – and our local and agency networks allow us to support businesses in tailored ways.

The federal government has a goal of collectively awarding 23 percent of its contracting dollars to small businesses. Within that goal, federal

purchasing agencies are further encouraged to award contracts to women owned businesses, minority owned businesses, and veteran small businesses. The SBA supports that 23 percent goal by publishing a Scorecard every 6-months to grade each agency – on a Red, Yellow, Green system – on their attainment of their goals, and on their progress toward doing more business with small companies. We just released this Scorecard last week, and it's going to bring more transparency, scrutiny and accountability to the agencies, and we welcome that.

I want to finish my summation of SBA's work with two parts of the Agency that sit a bit outside our usual support for small business, but which are absolutely crucial in helping small businesses succeed.

The first is our disaster recovery program. After disasters, like floods, hurricanes and the like, we make direct loans to small business owners, homeowners and renters. We're there to help them get back on their feet after the devastating losses so many people experience after these events. Our low-interest, long-term loans allow for recovery without overly burdensome costs or payback times.

Following Hurricane Katrina, we put almost \$6 billion in loans into the Gulf Coast. And, in the wake of process improvements after that catastrophic event, we're even better prepared when the next large disaster strikes.

In our disaster program, we make direct loans, and we process and service them ourselves. But we're looking for ways to speed up the process for borrowers, and one possibility would be to have private banks do the processing. Again, if we can leverage our field network to support men and women in drastic times, we want to do that. Another idea we're looking at is doing online applications, to streamline the recovery time for disaster victims.

Finally, there are two parts of SBA that serve as the voice of small business in the legislative creation and regulation enforcement processes.

Through the Office of Advocacy, the SBA helps to make sure small business has a voice, so their unique needs, concerns, issues, and priorities are not lost in Washington. The Office of Advocacy saves small business billions of dollars by encouraging government agencies to write regulations in a way that maximizes their benefits while minimizing their costs on small business. Under federal law agencies are required to consider the effects of their proposed regulations on small firms and examine alternatives that would minimize these impacts. Last year, the work of SBA's Office of Advocacy helped save small businesses \$7.25 billion in first-year costs and \$117 million in annual recurring costs.

Advocacy also produced over 20 reports in 2006 alone that document the role entrepreneurs play in the economy. This is key information that is used in policy making throughout the federal government and all 50 states. That research demonstrates both the value of the small business to our country and the issues they face:

- Small firms are responsible for the majority of new job growth in America;
- They represent about half of the non-farm economy; and
- Small patent-producing firms produce 13 to 14 times as many patents per employee than large firms.

Another key part of the SBA is the Office of the National Ombudsman which acts as a champion for small businesses that have complaints of unfair or excessive regulatory enforcement. In the last year, that office has conducted 16 hearings and roundtables across the country, received 289 comments from small business entities, and issued 421 responses to the public.

Again, these offices perform critical functions often missed by the private sector. Advocacy does quality, objective research on small business issues, and, then translates that data into information we can use in policy-making. From compliance with federal financing and credit laws to construction permits, small business is different. For example,

sometimes government agencies forget that small firms do not generally have accounting departments, and a separate corporate vice president for environment, safety, and health. It is usually the same person, the small business owner, who is responsible themselves for these things. And, it is up to SBA to ensure agencies realize that when they issue new rules and regulations there is a cost to small business owners in both dollars and efficiency. As the dollar savings I just quoted attest, Advocacy plays a large role in keeping the costs of doing business down for small companies.

As we think about laws and regulations already on the books, small businesses should be held to fair standards, but not excessive enforcement. When a firm is the victim of excessive enforcement, without the SBA, they could take legal action, and seek redress that way. That's fine, and worth them doing. But if overactive enforcement is happening in one place, it's likely happening in many. So, the SBA can look for patterns of systematically unfair treatment. That knowledge in turn allows us to champion widespread redress.

Let me conclude by discussing what we are focusing on in the months ahead:

We have placed a huge priority on expanding opportunities for underserved markets, particularly inner cities and rural areas.

Entrepreneurship can be a game changer for underserved communities with high poverty and high unemployment. Investing in start-ups and providing capital to these entrepreneurs enables job formation and economic activity in the areas that need it most. In order to sustain change and see real progress in areas with higher unemployment and poverty rates, we need to improve the way we are reaching and serving these entrepreneurs.

We are designing relevant financing products, expanding targeted outreach, and focusing agency goals to address the needs of underserved communities. Every SBA office throughout the country has a goal related to improving the flow of capital to businesses that are located in underserved markets in our country.

Since coming to SBA from the private sector just over a year ago, I have also been working on agency-wide management reforms to improve our effectiveness and efficiency. Bureaucratic and costly operational issues have impaired our performance and our ability to help individual entrepreneurs.

Typically when there is a problem in government, there is generally a bias toward addressing it with a new policy, a new law, or a call for burdensome oversight, when the solution may be fixing a process.

We are addressing many of the challenges in the agency on the foundation of four guideposts. We need to be an agency that is:

1. Outcomes Driven
2. Customer Focused
3. Employee Enabled
4. Tight Ship – efficient, accountable and transparent.

I want to reiterate what I said at the very beginning – the SBA shares many of the same goals that you have to empower entrepreneurs and spur economic growth and development. And we all have to balance fiscal responsibility with community impact. That community impact is especially important in areas of economic disadvantage, which haven't shared as much in the tide of rising global affluence.

SBA's unique position enables us to fulfill a critical mission not fulfilled by any other entity. We're having a big impact on small business, and -- like you -- we're constantly looking to expand our impact for small business, communities, and the marketplace.

Thank you for your time, and for your commitment to expanding business development opportunities for small firms across the globe.

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